Preliminary Injunctions: Look Before You Leap

by Morton Denlow

You are seated behind your desk staring out the window wondering whether the Cubs can actually win the division this year when the phone rings. It is the general counsel from a key client, Drugs, Inc., a global pharmaceutical manufacturer. The client has learned that an Internet startup, Natural.com, has begun marketing a line of herbal products under a trade name almost identical to your client's protected trademark. Your client wants you to put a stop to Natural's use of the trade name. You immediately review the background information from your client, examine Natural's Web site, and deliver a cease and desist letter to Natural. No response. Your client requests that you immediately file suit to enjoin Natural.

Now the wheels start turning. You draft the complaint. Instinctively, you begin to draft a motion for a preliminary injunction. Should you yield to this instinct?

Often such motions are filed without any serious thoughts about the potential downsides they present. I am not a fan of such motions and discourage them whenever possible. I encourage parties to proceed directly to an expedited trial on the merits. Before discussing my reasons for this, it will be helpful to review the rules pertaining to preliminary injunctions.

Rule 65 of the Federal Rules of Civil Procedure (FRCP) governs motions for preliminary injunctions. Rule 65 provides no guidance regarding the standards a court should apply in granting or denying such a motion. Rule 65(a)(1) simply states, "No preliminary injunction shall be issued without notice to the adverse party." Rule 65(a)(2) provides a mechanism for consolidating the trial on the merits with the motion for a preliminary injunction. Rule 65(a)(3) discusses temporary restraining orders (TRO) and provides that in the event a TRO is granted without notice, "the motion for a preliminary injunction shall be set down for hearing at the earliest possible time and takes precedence of all matters except older matters of the same character." Rule 65(b) discusses TROs, which are not the subject of this article.

Rule 65(c) requires security to be posted for any TRO or preliminary injunction "for the payment of such costs and damages as may be incurred or suffered by any party who is found to have been wrongfully enjoined or restrained." This rule does not apply where the United States or a federal officer or agency is a plaintiff.

Rule 65(d) requires that every injunction order set forth the reasons for its issuance, be specific in its terms, and describe in reasonable detail the acts sought to be restrained. This rule should be read in conjunction with Rule 52(a), which requires the court to make findings of fact and conclusions of law whenever it grants or refuses to grant an interlocutory injunction. Rule 65.1 provides a procedure for enforcing a surety's liability on an injunction bond by means of a motion in the underlying lawsuit, without the necessity of an independent action. Parties are free to take an interlocutory appeal from the grant, refusal to grant, dissolution, or modification of a preliminary injunction order. 28 U.S.C. § 1292(a)(1).

Unlike a motion for summary judgment, where Rule 56(c) gives you a green light when you can "show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law," Rule 65 gives no signal as to when to proceed. Therefore, case law and experience are our guides. Let us examine the issues you should consider before plunging into the preliminary injunction pool. These issues are not intended to be all-inclusive because every case must be treated individually.

Strategic Considerations for the Plaintiff

As plaintiff's counsel, you have a number of issues to consider before filing a motion for a preliminary injunction. These include: (1) your client's goals and objectives and

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whether they can be furthered by bringing the motion; (2) where suit should be filed and what legal standard applies; (3) how much discovery is necessary to establish a factual basis for injunctive relief; (4) whether the issues are predominantly legal or factual; (5) how long it will take to be ready for a trial on the merits and how this compares with the time necessary to prepare for the preliminary injunction hearing; (6) whether you want a jury trial; (7) whether your client can afford the possibility of two rounds of discovery, two trials, and two sets of appeals; (8) whether your client can afford to post a bond in the event you obtain a preliminary injunction; (9) how the defendant is likely to react if faced with a motion for a preliminary injunction; (10) the defendant's financial resources; and (11) the likelihood that a standstill agreement can be worked out, with or without such a motion.

Client's goals. Once the decision has been made to file suit, counsel must consider whether a motion for preliminary injunction will assist in accomplishing the client's goals. In addition to obtaining an injunction, the motion may have other benefits for the plaintiff. First, a motion for preliminary injunction may cause the defendant to pay serious attention to the case. A defendant is likely to respond with greater interest to a case where it is facing an early injunction hearing.

Second, such a motion is likely to bring about instant involvement by the court. This may include expediting discovery, setting an early hearing date, and encouraging the parties to meet and discuss a possible standstill agreement.

Third, a motion for preliminary injunction may bring about an early effort at resolving the entire dispute. The court may encourage the parties to seek an early resolution if faced with hearing a preliminary injunction motion. A successful motion for preliminary injunction will likely place great pressure on the defendant to resolve the entire case.

Fourth, a motion for preliminary injunction may lead to an early trial date on the merits, if the parties cooperate to avoid the necessity for two trials. This will assist your client in obtaining an early ruling on the merits.

On the other hand, the motion for a preliminary injunction can result in a waste of client time and money. Sometimes parties file a motion for preliminary injunction when they are not ready to proceed promptly or where a trial on the merits would be adequate. Because a motion for a preliminary injunction may lead to a second trial and two sets of appeals, a party embarking on this path must determine whether the motion serves the client's interests. An unsuccessful motion has the possible detriments of emboldening the defendant, making it more difficult to settle on favorable terms, and encouraging the judge to question the merits of the case.

Many times a motion for a preliminary injunction is filed as a knee-jerk reaction, given the nature of the lawsuit, without regard to whether it makes sense. For example, many trademark cases would be better litigated in a trial on the merits rather than on a motion for preliminary injunction, where injunctive relief is the primary relief sought and where the evidence would be substantially the same.

Forum shopping and differing standards. A second critical issue is where to file suit and bring the motion. In many cases, the hearing on the preliminary injunction represents the final trial in the case because the losing party cannot afford to continue the litigation or because the result gives the parties a strong signal about how the litigation will turn out if the case proceeds to a final judgment. If this is the case, finding a jurisdiction with a more relaxed standard for obtaining a preliminary injunction may give you a tactical advantage.

The law on preliminary injunctions is in disarray. Because the Supreme Court has not set clear standards, each circuit has been left to formulate its own. The result is different strokes for different folks among circuits and even within a circuit. These standards include the traditional four-part test requiring a court to consider whether: (1) the plaintiff has a substantial likelihood of success on the merits; (2) the plaintiff will suffer irreparable injury if the injunction is not granted; (3) an injunction will substantially injure other interested parties; and (4) the grant of an injunction will further the public interest. *Al-Fayed v. CIA*, 254 F.3d 300, 303 (D.C. Cir. 2001).

A second standard is called the two-part test, which requires a plaintiff to show: (a) that it will suffer irreparable harm in the absence of an injunction; and (b) either (i) a likelihood of success on the merits, or (ii) sufficiently serious questions going to the merits to make them a fair ground for litigation, and a balance of hardships tipping decidedly toward the movant. *Zervos v. Verizon New York, Inc*., 252 F.3d 163, 172 (2d Cir. 2001).

A third test requires a party seeking a preliminary injunction to show both a likelihood of success on the merits and the probability of immediate and irreparable harm if the injunction is denied. If relevant, the court should also examine the likelihood of irreparable harm to the non-moving party and whether the injunction serves the public interest. *Adams v. Freedom Forge Corp*., 204 F.3d 475, 484 (3rd Cir. 2000).

Think hard about whether you might prefer to go directly to a trial on the merits.

Yet a fourth test is the sliding-scale approach, under which a plaintiff must demonstrate (1) the case has some likelihood of success on the merits; (2) no adequate remedy at law exists; and (3) it will suffer irreparable harm if the injunction is not granted. If these three conditions are satisfied, the court must consider the irreparable harm the non-moving party will suffer if preliminary relief is granted, balancing such harm against the irreparable harm the non-moving party will suffer if relief is denied. Finally, the court must consider the public interest (of non-parties) in granting or denying the injunction. The court then weighs all the factors. The more likely the plaintiff will succeed on the merits, the less the balance of irreparable harms need favor the plaintiff's position and vice versa. *Ty, Inc. v. Jones Group, Inc*., 237 F.3d 891, 895-96 (7th Cir. 2001). Under this sliding-scale approach, the plaintiff need demonstrate only that it has a "better than negligible" chance of succeeding on the merits to justify injunctive relief. *Id*. at 897.

Although the issue of success on the merits is generally one of the factors under all approaches, this issue is decided in a

number of ways, ranging from a showing of a "probability" of success, a "likelihood" of success, a "possibility" of success, "raising a serious question" going to the merits, or a "better than negligible" chance of success.

The standard can greatly impact the result. As a plaintiff, you will have an easier time proving a "better than negligible" chance of prevailing on the merits than a "probability" of success. A plaintiff should, if possible, choose a forum that has the most favorable standard for obtaining a preliminary injunction because the injunction may lead to a favorable settlement or capitulation by the other side.

How much discovery is required. As plaintiff's counsel, you must also determine how much discovery will be necessary. The plaintiff should be prepared to seek expedited limited discovery sufficient to make out a case for an injunction. You should anticipate the discovery the defendant is likely to request. If extensive discovery will be required, it may make sense to proceed directly to a trial on the merits.

You must recognize the possibility that a second round of discovery will be necessary in preparation for a trial on the merits after the motion for preliminary injunction is heard. This second round of discovery may represent a significant additional expense. You should consider whether the case will proceed better with one round of complete discovery or two. If discovery can be completed in one complete round, it may make sense to dispense with the motion for a preliminary injunction and proceed to final judgment.

Factual or legal issues predominate. You should analyze the case to determine whether the issues are primarily factual or legal. If they are primarily factual, moving for a preliminary injunction may require a second trial on the merits. Although Rule 65(a)(2) permits the trial on the merits to be "advanced and consolidated" with the hearing on the motion, this does not apply where a jury is demanded. Similarly, Rule 65(a)(2) provides that evidence received on the motion for preliminary injunction "which would be admissible upon the trial on the merits becomes part of the record on the trial and need not be repeated upon the trial." Depending on the amount of delay between the two trials, this provision may not be useful. Therefore, if you are going to trial, think hard about whether you might prefer to go directly to a trial on the merits. This is particularly true because factual findings and conclusions of law made at the preliminary injunction stage are not binding at a later trial on the merits. *University of Texas v. Camenisch*, 451 U.S. 390, 395, 101 S. Ct. 1830, 1834 (1981).

If legal issues predominate and you have a weak legal position, you may prefer to proceed with a preliminary injunction, particularly in a jurisdiction that requires only a "better than negligible chance of success" on the merits. In some jurisdictions you may stand a greater chance of obtaining preliminary relief where the standard places greater emphasis on the harm factor than the success factor. For example, in a jurisdiction such as the Seventh Circuit, which uses a sliding scale, you may obtain an injunction where the threat of harm is great but your chance of prevailing on the merits is relatively low.

The law in this area is also confused. Although the case law states that legal issues are not to be finally decided in the context of a preliminary injunction proceeding, both the Supreme Court and circuit courts have used preliminary injunction cases to decide important legal issues. For example, the Supreme Court recently held the City of Indianapolis highway checkpoint program unconstitutional as a violation of the Fourth Amendment, on review from a preliminary injunction. *City of Indianapolis v. Edmond*, 531 U.S. 32, 121 S. Ct. 447 (2000).

Therefore, counsel must decide whether there is an advantage in obtaining a final ruling or awaiting a second proceeding. Courts of appeal are unpredictable regarding whether they will reach the merits on an appeal from a preliminary injunction ruling. Therefore, you should consider whether your case would benefit from a full record at a trial on the merits or whether you will take your chances on the record made at the preliminary injunction hearing.

How long until trial on merits. You may consider filing a motion for a preliminary injunction with the goal of receiving an expedited trial on the merits. If you can convince the court that essentially the same discovery and preparation time would be required to prepare for a trial on the merits, you may be able to move directly to this issue. For example, as mentioned earlier, in trademark cases there is generally little difference on the issue of liability between cases presented at the preliminary injunction stage and the trial on the merits. Therefore, consider asking the court to bifurcate the issue of damages and go directly to the merits on the issue of liability. In this way, your client receives a decision based on the merits of the dispute.

This enables you to avoid the baggage of the other issues that accompany a preliminary injunction motion (i.e., balance of hardships, public interest, and bond) but do not come into play for a trial on the merits. If a judge has a busy court calendar, how likely is it that you will receive an early date on a trial on the merits after the court has given you a trial on the preliminary injunction? If the court is prepared to set aside trial time early in the case, consider whether you are better off using it to try the merits.

Jury demand. For plaintiff's counsel the question whether to file a jury demand is complicated. You are not entitled to a jury in connection with the preliminary injunction hearing, but you may be entitled to a jury for the liability and damages portion of the case on the merits. The evidence at the preliminary injunction hearing and the court's findings are not binding on a jury deciding the merits of the dispute. FRCP 65(a)(2). Therefore, the plaintiff can preserve a second bite at the apple by filing a jury demand. On the other hand, this substantially increases the litigation costs and may delay a trial on the merits.

A plaintiff who does not file a jury demand becomes dependent on the defendant's decision regarding a jury. Therefore, if a jury will ultimately decide the case on the merits, plaintiff must decide whether the advantages of proceeding with the preliminary injunction outweigh the detriments of two trials.

If no jury demand is filed by either party, it would make sense to proceed directly to a trial on the merits because the court's factfinding is not likely to change between the preliminary injunction and trial on the merits.

Client resources. In considering a motion for a preliminary injunction, you should explain the advantages and disadvantages to your client and explain the possibility of two rounds of discovery, two trials, two appeals, and the potential costs. The client should make an informed decision with counsel. Those clients who are interested in obtaining a final decision will likely find the preliminary injunction inadequate.

A decision on a preliminary injunction may not decide anything meaningful to the client. For example, if a preliminary

injunction is granted in a trademark case on the basis that the plaintiff has demonstrated "a greater than negligible chance of prevailing on the merits," what have you achieved toward a final decision? If injunctive relief is denied on the ground that the "balance of hardships" tips in favor of the defendant, what has the client achieved? If the defendant appeals the injunction and the case is later returned for a trial on the merits, will your client be surprised? The decision to proceed should be analyzed in terms of the client's resources and litigation objectives.

The bond requirement. The security requirement raises two principal issues for the plaintiff's counsel. First, can the client afford to post a bond or other security, and second, can the client afford to pay for costs and damages to the defendant in the event the court later determines the defendant was wrongfully enjoined?

Can a standstill agreement be worked out between the parties, with or without a bond?

These issues create substantial financial exposure for a plaintiff. If the preliminary injunction causes the defendant to change its name, its marketing, and related business activities, for example, the court will generally require a substantial bond. If a client is unable to post the bond, the injunction will not issue. In addition, if significant assets are posted, those assets may be lost if the defendant can later establish that the injunction should not have been granted. This may require a separate trial on damages caused by the injunction. FRCP 65(c), 65.1.

These concerns do not arise if you choose to go directly to a trial on the merits because no bond is required if you prevail on the merits. To the contrary, a losing defendant must post an appeal bond to stay an injunction or to secure any damages awarded.

Defendant's reaction. Litigation strategy is similar to a game of chess. You must anticipate how the defendant will react to your moves. If you believe the motion will stimulate the defendant to seek an early settlement or if you believe the defendant may be caught by surprise, thereby giving you a tactical advantage, you may decide to proceed. On the other hand, if you believe the defendant has deeper pockets and would be better capable of defending the motion, you may not wish to proceed. If you believe a standstill agreement can be worked out, you may wish to file the motion in order to prompt the discussion and to seek prodding from the court.

Preliminary injunction motions carry baggage. As plaintiff's counsel, you must understand the extra baggage created if you file for a preliminary injunction, and you must decide whether the effort is justified. You will have to address issues beyond the merits, such as the threat of irreparable harm, the balance of hardships, the public interest, an injunction bond, exposure to damages for a wrongful injunction, and the possibility of an interlocutory appeal. You must also recognize that a victory may not give you or your client any better clue regarding who will ultimately prevail because the merits are only one factor a court considers in deciding the motion for a preliminary injunction.

Strategic Considerations for the Defendant

As defendant's counsel, you face a number of issues, including many of the same issues considered by plaintiff's counsel. These include: (1) your client's goals and objectives; (2) how much discovery is necessary; (3) whether the issues are predominantly legal or factual; (4) whether you should file a jury demand; (5) your client's resources; (6) the likelihood of working out a standstill or other agreement; (7) how large a bond is necessary to protect your client; (8) what standard applies; and (9) how long it will take to prepare for a trial on the merits.

Much of the analysis from the defense perspective mirrors that of the plaintiff. However, the question of how hard to resist the preliminary injunction creates interesting options. For example, if you are in a jurisdiction where the threshold for obtaining a preliminary injunction is low, you should consider permitting some form of injunctive relief in exchange for a large bond while agreeing to an early trial on the merits. The bond may provide you with leverage in later negotiations if you have reason to conclude that the plaintiff will lose on the merits.

You should consider saving your powder for the big battle. If you choose to litigate the preliminary injunction and win, how likely is it that the plaintiff will appeal or proceed to a trial on the merits? If an appeal or later trial is likely, your client may prefer to work out a standstill or other form of preliminary injunction while awaiting a trial on the merits. Therefore, do not automatically assume that litigating the preliminary injunction always makes sense for your client. Keep an open mind about developing creative options that serve your client's interests.

Strategic Considerations for the Court

As a magistrate judge, I actively discourage motions for a preliminary injunction and encourage parties to proceed promptly to a trial on the merits. When presented with a motion for a preliminary injunction, I analyze with counsel the pros and cons. As a result, I have been successful in moving directly to a trial on the merits or settling most cases without conducting a preliminary injunction hearing. Most parties who compare the alternatives usually come to the conclusion that proceeding with a motion for a preliminary injunction is not preferable to an early trial on the merits.

Judges should actively explore the alternatives with counsel. Our trial time is limited, our case loads are growing, and we should devote our energies to deciding issues that permit the parties to move on with their lives and businesses. Motions for preliminary injunction should be avoided whenever possible because they do not decide much that is useful to the parties.

Let me explain. From my perspective, the motion for a preliminary injunction creates a number of issues that overlay the merits of the dispute. It makes the matter more difficult to resolve and does little to further a final resolution. These issues include: (1) determining what preliminary

injunction standard to apply; (2) deciding the additional issues required by the preliminary injunction standard; (3) deciding the issue of security for the injunction; (4) preparing findings of fact and conclusions of law that are merely preliminary; and (5) possibly conducting two trials and enduring two sets of appeals.

Therefore, I have developed the following checklist that I review with counsel to help them decide whether proceeding with the preliminary injunction motion makes sense:

1. What is the urgency that requires a prompt hearing?
2. Can complete relief be provided if we proceed to an expedited trial on the merits?
3. Can a standstill agreement be worked out between the parties, with or without a bond?
4. How long will it take the parties to be ready for a trial on the merits compared with the time to be ready for the preliminary injunction?
5. Can the parties afford the possibility of two rounds of discovery, two trials, and two appeals?
6. Is there a jury demand?
7. Are the parties prepared to waive a jury trial?
8. Does it make sense to bifurcate liability from the damages remedy?
9. Will the plaintiff be able to post an injunction bond?
10. When will my trial calendar permit a trial, and how much time will a trial on the merits take compared with the hearing of the preliminary injunction?
11. Are the issues primarily factual or legal?

After I discuss these questions with counsel, they almost invariably decide the motion for a preliminary injunction does not make sense, and they agree to an expedited trial on the merits.

A motion for preliminary injunction can be an effective tool to cause the defendant and the court to pay attention to the case. Beyond that, it has limited utility because the standards for obtaining an injunction are unclear; the decision to grant or deny the injunction involves a number of issues unrelated to the merits of the dispute; and a motion for a preliminary injunction creates the possibility of two rounds of discovery, two sets of trials, and two appeals. Informed clients generally decide not to incur the additional expense and delay created by a motion for a preliminary injunction. They want the merits decided as soon as possible. Whenever possible, courts and parties should avoid motions for a preliminary injunction and proceed directly to a trial on the merits.